

Message Text

SECRET

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ACTION NEA-07

INFO OCT-01 SS-14 ISO-00 EUR-08 ARA-10 IO-06 EA-06
AF-04 ACDA-10 CIAE-00 DODE-00 DOE-01 EB-04 INR-05
H-01 L-01 NSAE-00 NSC-05 OES-02 OMB-01 PM-03
SOE-01 SP-02 TRSE-00 /092 W
-----009856 280649Z /14

R 280550Z MAR 78
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TO SECSTATE WASHDC 1543
INFO AMEMBASSY ABU DHABI
AMEMBASSY ALGIERS
USINT BAGHDAD
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY CARACAS
AMCONSUL DHAHRAN
AMEMBASSY DOHA
USMISSION GENEVA
AMEMBASSY JAKARTA
AMEMBASSY KUWAIT
AMEMBASSY LAGOS
AMEMBASSY LIBREVILLE
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY QUITO
USLO RIYADH
AMEMBASSY TEHRAN
AMEMBASSY TOKYO
AMEMBASSY VIENNA

S E C R E T JIDDA 2348

LIMDIS

E.O. 11652: GDS
TAGS: ENRG, SA
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SUBJ: SAUDI INTENTIONS FOR EXPANSION OF OIL PRODUCTION CAPACITY

1. CHARGE MET WITH DEPUTY MINISTER OF PETROLEUM AND MINERALS,
ABDUL AZIZ TURKI, ON MARCH 26 AND ASKED HIM ABOUT SAG'S PLANS
TO EXPAND OIL PRODUCTION CAPACITY OVER THE PERIOD FROM NOW
TO MID-80'S. TURKI REPLIED THAT THERE HAD BEEN NO REVISION
IN SAG'S PLANS SINCE SECRETARY SCHLESINGER'S VISIT TO SAUDI

ARABIA IN JANUARY. AT THAT TIME CROWN PRINCE HAD ASSURED SCHLESINGER THAT BY 1984 SAUDI ARABIA WOULD HAVE THE CAPACITY FOR SUSTAINED PRODUCTION AT THE LEVEL OF 12 MILLION BARRELS PER DAY.

2. TURKI SAID THAT THIS REPRESENTED AN INCREASE IN SUSTAINED PRODUCTION CAPACITY OF ONE TO TWO MILLION BARRELS PER DAY AND THAT THIS INCREASE IN PRODUCTION COULD BE FINANCED INTERNALLY BY ARAMCO OUT OF THE AMOUNT NOW SET ASIDE FOR CAPITAL INVESTMENT FROM THE PROCEEDS OF EACH BARREL SOLD. CHARGE ASKED TURKI IF OTHER MAJOR CAPITAL REQUIREMENTS, SUCH AS SEA WATER DESALINIZATION AND INJECTION SYSTEMS, COULD PREEMPT MOST OF THE CAPITAL INVESTMENT FUNDS AVAILABLE INTERNALLY AND LEAVE LITTLE OR NOTHING FOR EXPANSION OF CAPACITY. TURKI REPLIED THAT THESE ADDITIONAL INVESTMENT REQUIREMENTS HAD BEEN TAKEN INTO ACCOUNT AND THERE WOULD STILL BE ENOUGH MONEY FOR THE EXPANSION OF CAPACITY OF ONE TO TWO MILLION BARRELS PER DAY BY 1984.

3. TURKI ALSO CONFIRMED THAT ARAMCO NEEDS FOUR TO FIVE YEARS LEAD TIME TO CONSTRUCT ADDITIONAL FACILITIES AND BRING THEM INTO PRODUCTION. HE ADMITTED THAT IT IS DIFFICULT TO PREDICT DEMAND THAT FAR IN ADVANCE AND THAT MISCALCULATION NOW COULD LEAD TO SUPPLY SHORTAGES IN THE FUTURE. HE POINTED OUT, HOWEVER, THAT THE RISKS WERE
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NOT ALL ON ONE SIDE OF THE FENCE. EXPANSION OF CAPACITY COSTS APPROX ONE BILLION DOLLARS PER M/B/D OF CAPACITY AND IF THESE FACILITIES SIT IDLE FOR LACK OF DEMAND, THE PRODUCING COUNTRY LOSES ITS RETURN ON A MAJOR INVESTMENT. AT PRESENT, SAUDI ARABIA HAS WELL OVER TWO M/B/D OF IDLE CAPACITY AND DOES NOT WANT TO EXPAND FURTHER THIS IDLE CAPACITY UNNECESSARILY. ARAMCO IS, HOWEVER, PROCEEDING WITH A MODEST, INTERNALLY FINANCED EXPANSION PROGRAM AND INTENDS TO CONTINUE TO DO SO. WILEY

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